

Cable
Text:

UNCLAS NASSAU 00126

SIPDIS

CXNASSAU:

ACTION: ECON

INFO: NAS AMB DCM POL RSO CONS

DISSEMINATION: ECON

CHARGE: PROG

APPROVED: DCM:DBHARDT

DRAFTED: ECON/COMM:AMBAIN

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FM AMEMBASSY NASSAU

TO RUEHC/SECSTATE WASHDC 5196

INFO RUCPDOC/USDOC WASHDC

RUEHDG/AMEMBASSY SANTO DOMINGO 2890

RUCNCOM/EC CARICOM COLLECTIVE

UNCLAS SECTION 01 OF 03 NASSAU 000126

SIPDIS

STATE FOR WHA/CAR AND EB

SANDO DOMINGO FOR USFCS

E.O. 12958: N/A

TAGS: [ECON](#) [FAIR](#) [BEXP](#) [ETRD](#) [BF](#)

SUBJECT: 2008 BAHAMAS BUSINESS OUTLOOK

¶1. SUMMARY: Presenters at the 17th Annual Bahamas Business Outlook Conference discussed substantial challenges to the Bahamian economy, including the need to: upgrade the infrastructure on New Providence, conclude investment deals quickly, and develop new ways to appeal to tourists. They painted a picture of an economy challenged by the slowdown in the United States, but were optimistic that current economic conditions would turn around when large scale investment projects, now on the drawing board, were approved by the Free National Movement government. END SUMMARY.

ECONOMY TO GROW, BUT CHALLENGES LOOM

¶2. Minister of State for Finance Zhivargo Laing told attendees at the 17th Annual Business Outlook Conference January 8 that the Bahamian economy is expected to grow between 3.5 to 4.0 percent in 2008 despite potential threats from high oil prices and the broadening impact of the U.S. sub-prime mortgage crisis. Minister Laing said that economic growth will be underpinned by foreign investment projects in tourism and industry, combined with a modest recovery in tourism output and a robust public sector capital development program. The proposed public sector capital development projects include the New Providence Road Improvement Program, with an estimated investment of \$120 million, and the \$400 million Lynden Pindling International Airport expansion project.

¶3. Minister Laing stressed, however, that The Bahamas will not be successful in the long run "doing what it has been doing." He bluntly stated that The Bahamas must improve its customer service for tourists, engage more fully in the international trading system, make better use of information technology, liberalize telecommunications (including the sale of the state-owned Bahamas Telecommunications Company), reform exchange controls, consolidate the regulatory regime for financial services, and modernize business

laws and regulations to streamline the process for approving business start-ups.

SLOW PROJECT APPROVAL HURTING THE ECONOMY

¶4. Dionisio D'Aguilar, Chamber of Commerce president, severely criticized the government at the Outlook conference for taking too long to approve projects, thus slowing down the economy. D'Aguilar called on the government to move expeditiously to approve outstanding projects, especially the Baha Mar project slated for Cable Beach, and pointed to increased unemployment figures, falling tourism arrivals, and global and U.S. economic woes as reasons why the government needs to approve foreign direct investment projects. The supplemental Heads of Agreement for the Baha Mar project was approved on February 1, allowing the project to move forward.

BAHAMAS LOOSES ITS TOURISM ADVANTAGE

¶5. Addressing the 17th Business Outlook Conference, Director General of Tourism Vernice Walkine said that total spending in The Bahamas in 2007 is estimated at \$2 billion -- the same as 2006. Tourism arrivals in 2007 are expected to be slightly lower than the 4.8 million visitors welcomed in 2006. Walkine blamed this decline on the Western Hemisphere Travel Initiative (WHTI) that has put a dent in the impulse travel market, which The Bahamas benefited from greatly. She said that the Ministry of Tourism does expect this market and the tourism industry to recover over time, but it has eroded The Bahamas' comparative advantage on proximity. The Ministry of Tourism is concerned that while the market share is strong, The Bahamas has given up ground to emerging destinations in the Caribbean region. She also noted that the Internet has leveled the playing field between destinations due to its availability and accessibility.

¶6. The Ministry is currently redefining its tourism product and expects to come out with a new advertising campaign soon. The revised campaign plans to capitalize on the proximity of The Bahamas to the U.S. during a period of economic downturn where some Americans cannot afford to travel far. The Ministry also intends to expedite plans to redevelop the downtown area and dredge the harbor in order to attract and accommodate larger cruise ships to Nassau. Tourism officials admit that The Bahamas has a long way to go to recapture its competitive edge, but Walkine says that they expect this to recover over time. Additionally, the new tourism development projects that are currently on the drawing board will also enhance its tourism product when they are completed.

¶7. As severe crimes in The Bahamas have increased to record levels and have moved from the grassroots areas to downtown Nassau, tourism officials hope that this will not further threaten the industry. Economists fear that the issue of crime could destroy the reputation of The Bahamas, if it is not addressed immediately. Last year The Bahamas experienced 79 murders. As reported (septel) the Embassy often receives inquiries from the press following high profile murders as to whether it will issue a travel advisory for The Bahamas due to the increasing crime.

\$2 BN INFRASTRUCTURE UPGRADES NEEDED

¶8. Simon Townend of KPMG said that \$2 billion in investments is needed to upgrade The Bahamas' infrastructure if the country is to maximize its economic growth potential. Mr. Townend said that it might be difficult for The Bahamas to increase its GDP per capita to the level of Bermuda and the Cayman Islands, but noted that the Bahamas needs to "change our aspirations" and set its economic sights higher. Townend informed Outlook Conference delegates that upgrades to Lynden Pindling International Airport alone are projected to cost \$400 million, and with the other Family Island airports all needing attention, the total investment required for all Bahamian airports is approximately \$500 million. He said that although \$120 million has been allocated for New Providence Road Improvement projects; total road refurbishment requirements for The Bahamas exceed \$200 million. Townend further noted that a proposed

relocation of the downtown commercial shipping port to south-western New Providence is estimated at \$235 million. Townsend estimates that The Bahamas needs to invest \$400-500 million in rebuilding the nation's education and school system, if it wants "state-of-the-art" schools. He presented a number of suggestions to help improve the current state of the economy including: investing more heavily in the financial services industry, privatizing key government agencies, and investing Bahamian businesses in other Caribbean countries.

IMPROVEMENTS TO AIRPORT

¶9. The audience literally applauded as Craig Richmond, Chief Executive of the Nassau Airport Development Company (NAD), told conference delegates about the improvements being made to the Lynden Pindling International Airport. Richmond noted that because the airport was never operated as a business, it is \$6 million in debt even with the changes NAD has already made. Richmond attributed the debt to the fact that landing fees at the airport have not changed since 1993, and that LPIA had some of the lowest fees in the Caribbean. He noted that landing and terminal fees currently cover only 33 percent of the airport's airside operations and just 6 percent of the terminal costs, which caused the imbalance. In order to strengthen airport operations, NAD is looking at four areas: operational competence, financial strength, passenger satisfaction and staff competitiveness. Richmond said that safety, access for airlines that chose to fly to The Bahamas and gate execution are all essential to the airport's competitiveness. NAD has recently hired gate schedulers whose only function will be to ensure gates are scheduled efficiently. NAD plans to install a new baggage system to be one of the most sophisticated in the region for a cost of between \$25-30 million upon completion. Additionally NAD will eliminate the final security checking point that will provide a better visitor experience.

DOWNTOWN REDEVELOPMENT PLEASE

¶10. Charles Klonaris, chairman of the Nassau Tourism and Development Board, outlined the challenges faced by downtown Nassau. He described a downtown that "lacks diversity and density, that "closes its doors" and "is abandoned." He recommended that the shipping facilities currently located in the heart of the city be relocated, that stops be found for the buses outside of the downtown area to reduce congestion, and that waterfront land used by the port be reclaimed for retail and residential use.

COMMENT

¶11. The presenters at the 17th Annual Business Outlook Conference showed a Bahamas at the tipping point. With its streets clogged with vehicles, its infrastructure in need of repair, its customs-based tax structure ill-fitted to a 21st century trading system, and its old formula of sun and sand under challenge from other destinations offering similar amenities at lower prices, The Bahamas needs to invest in its future. Presenters seemed impatient with the pace of change, and the Free National Movement honeymoon may be coming to an end, as speaker after speaker called on the new FNM government to move quickly to approve pending tourism development projects and deal with other critical tourism issues that have been stalled for some time--including the relocation of the straw market, improvements to downtown and the relocation of the Port of Nassau. The Ingraham government seems to have gotten the message and granted the necessary approvals for the \$2.4 billion Baha Mar project to move forward and has pledged to conclude the sale of Bahamas Telecommunications Company this year. While the airport will finance its own renovations, it is unclear where the \$2 billion will come from for infrastructure improvements that all agree need to be made.